DOCUMENT RESUME

ED 456 210 CE 081 216

TITLE Workforce and Economic Vitality Issue Paper. Aging Initiative: Project 2030.

INSTITUTION Minnesota State Dept. of Human Services, St. Paul.; Minnesota State Board on Aging, St. Paul.

PUB DATE 1999-01-00

NOTE 11p.; For other Project 2030 documents, see: ED 448 271 and ED 449 332.

AVAILABLE FROM Aging Initiative, Minnesota Department of Human Services, 444 Lafayette Road, St. Paul, MN 55155-3844. Tel: 651-296-4862; TDD: 651-297-5353; TDD: 800-627-3529 (Toll Free). For full text: http://www.dhs.state.mn.us/Agingint/Proj2030/issue/workfr.htm.

PUB TYPE Reports - Evaluative (142)

EDRS PRICE MF01/PC01 Plus Postage.

DESCRIPTORS Aging (Individuals); *Baby Boomers; Demand Occupations; Demography; Economic Development; Economic Factors; *Economic Impact; Employment Practices; Employment Projections; *Futures (of Society); Government Role; Labor Needs; *Older Adults; Policy Formation; *Public Policy; Retirement; School Business Relationship; School Community Relationship; Social Influences; *Statewide Planning; Taxes; Work Attitudes

IDENTIFIERS Globalization; *Minnesota

ABSTRACT

A public policy study in Minnesota, conducted as part of Project 2030, looked at the impacts of the aging of the baby boom generation on the work force and the economic vitality of the state by the year 2030. The study found the following general trends affecting the work force and economic vitality and noted the relation of each to the aging population: (1) a global economy (employers who serve the elderly in rural Minnesota will have difficulty holding workers because of the shift to a global economy); (2) changing composition of industrial sectors (the productivity of an aging work force will need to be considered, especially where strength and dexterity are required); (3) labor shortages (most job openings will occur as the result of retirings or other quittings, not because of new job creation); (4) training and education mismatches with skill needs (focus will shift to retraining of individuals already in the work force); (5) technology (technology will have to substitute for workers due to labor shortages but can't provide care for the elderly, where there is already a shortage); and (6) tax implications (Minnesota's tax base will change because, among other things, a greater share of personal income will be tax exempt and subject to lower rates and slower rates of growth.) Recommended policy directions for the state are included in the "Project 2030 Final Report." (KC)

Reproductions supplied by EDRS are the best that can be made
from the original document.

2030

ED 456 210

WORKFORCE AND ECONOMIC VITALITY ISSUE PAPER

January 1999

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY

L. Knatterud

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

1

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

☑ This document has been reproduced as received from the person or organization originating it.

☐ Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

Aging Initiative: Project 2030
Minnesota Department of Human Services
444 Lafayette Road
St. Paul, Minnesota 55155-3844
(651) 296-4862

BEST COPY AVAILABLE

CE081216

WORKFORCE AND ECONOMIC VITALITY

Introduction

Project 2030 is a major initiative of the state of Minnesota, housed within the Minnesota Department of Human Services and carried out in partnership with the Minnesota Board on Aging. The Project is identifying the impacts of the aging of the baby boom generation that will begin turning 85 in 2030, and preparing the state's response to the challenges posed by this major change in Minnesota's age structure.

As a part of Project 2030, issue papers on Health and Long Term Care, Changing Communities and Workforce and Economic Vitality were prepared. The discussions of relevant trends and issues contained in these papers are products of the 2030 workgroups, made up of Minnesota state department liaisons to the Project. Additional research relating to these issues can be found in the Project 2030 policy reports, including the Final Report, published separately.

Why is the Workforce and Economic Vitality Important for 2030?

Over the next several decades, Minnesota's labor force will reflect changes in the state's population. The labor force is projected to grow more slowly and become older, more racially diverse and more concentrated in metropolitan areas. The median age for the state's workforce is expected to climb from 36 today to 46 by 2030.

With the growth in older workers in the workforce and a shrinking pool of younger workers entering the workforce, the state faces a number of challenges.

The economic and job opportunities of the 1990s have resulted in a net in-migration of people to the state, a reversal of an historical trend for most of the 20th century. This has offset the gradual slowing of natural population growth and added to the labor pool within the state. Since labor force supply is an important source of economic growth, future economic growth could be affected by the availability and skills of labor, including the age of that labor pool.

Economic growth and increasing the standard of living for all Minnesotans are important goals for the state and will provide for increases in per capita personal income and tax revenue. A strong growing economy with increased per capita income will make it easier for Minnesota's government agencies to provide important public services and absorb the costs associated with an older population.

Such economic conditions will also make it possible for more individuals to prepare and pay for their own needs in retirement, thus relieving the public sector of some of these costs. Since labor supply growth alone may not be able to fuel future economic growth, an increase in labor force participation by women and older workers may be necessary.

General Trends Affecting the Workforce and Economic Vitality

Global Economy

The global economy is increasingly superceding the national, state and local economies. As a result, the local economy has less importance and control. The physical location of a business has been dislocated from its customers and the sources of its raw materials and employees.

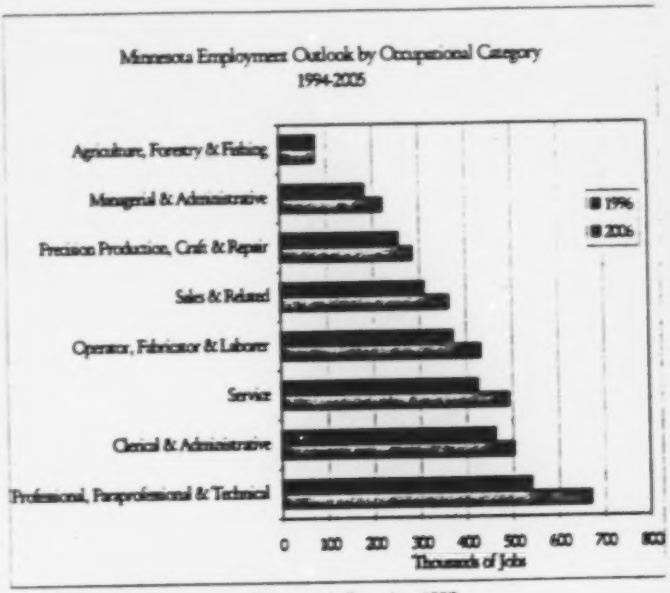
The effects of the global economy are being felt differently in the urban and rural areas of Minnesota. Service sector exports, such as banking, principally benefit the urban areas of the state. Agricultural commodity exports primarily benefit the rural communities. However, rural communities may have a less diverse economic base and, as a result, may have fewer ways to accommodate to these macroeconomic changes.

Changing Composition of Industrial Sectors

The relative size and importance of the state's industrial and economic sectors will continue changing into the future. Despite the fact that Minnesota has continued to have a robust manufacturing industry, Minnesota's other sectors have grown more rapidly.

The service producing sector continues to expand throughout the state in retail, health care, tourism and restaurant/food. Most of the state's future jobs will be added by this sector.

Regional differences exist across the state as to the predominant industrial sectors. These differences have implications for the stability of local economies. Those regions characterized by high dependence on agriculture will face a more uncertain economic future as crop prices continue to fall short of expenses incurred.



Source: MN Department of Economic Security, 1997

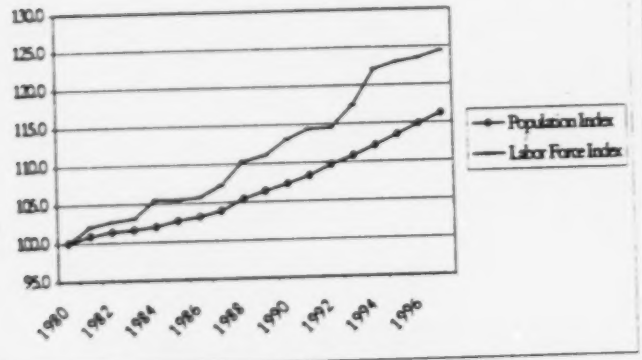
The mining and forestry industries in the northern third of the state are integrating technology into their operations in efforts to sustain productivity levels. The regional economic centers of the state are expected to continue experiencing economic growth into the future as working age individuals in-migrate for employment opportunities. The more diverse economic base enjoyed by these centers will help sustain them in the future.

Labor Shortages

A large gap exists between employment growth and labor force growth. By the year 2005 alone, employment is projected to increase by nearly 373,000 jobs. The estimated number of workers age 16 and over is expected to fall far short of demand. And this gap will continue to worsen due to the slowing of labor force growth expected for the coming decades.

A major factor driving the slower workforce growth rate is the current peak labor force participation rates of men and women. Minnesota is currently experiencing record high labor force participation rates for the state's total labor pool at 74.7 percent, and has the highest labor force participation rate for women in the nation at 68.7 percent.

Minnesota Population and Labor Force Growth, 1980-1997



Source: MN Department of Economic Security, 1997

Although the labor force shortage will be felt statewide, differences exist in the effects of these shortages among regions of the state, industrial sectors, and occupational skill levels.

For example, the economy in northern Minnesota has historically relied on mining and forestry as its predominant industries. These industries now face significant labor shortages. The current number of qualified engineers and researchers to work in these fields is insufficient to replace the large number of current professionals who will be retiring in future years.

A similar situation can be seen in the agriculture industry throughout the state. Younger individuals living in rural communities are not interested in taking over the family farm or starting their own farm. The initial capital costs of starting up a farm, as well as the uncertainty of receiving a steady income flow, are reasons for young people's reluctance.

In contrast, the service industry continues to expand rapidly throughout the state in retail, health care and restaurant/food. These sectors will continue to demand high numbers of workers in the future.

The implications of the labor shortages will be exacerbated by the lack of systems, such as housing and transportation, with which to support workers in communities. This situation is most apparent in the smaller communities in greater Minnesota. These communities are experiencing out-migration of their working age residents. As a result, local tax bases are increasingly unable to fund changes and additions to their infrastructures.

If the labor supply is not adequate to meet the needs of the state's employers, the best alternative to ensure continued economic growth is productivity growth. Increased productivity through investments in physical and human capital means that the same number of people are able to increase the volume of service or product output. Increased productivity also results in higher wages and a more competitive economy.

Training and Education

Currently, there is a mismatch between the skills supplied by workers and the skills demanded by employers. This situation will become a greater challenge in the future because of the rapidly changing economy. The current education and training systems in Minnesota do not always adequately prepare individuals for the jobs that are available. Individuals who are most severely affected by this trend are those who lack access to many of the education and training opportunities offered after post-secondary education.

Technology

Regardless of the labor supply conditions, technology will continue to permeate throughout the economy. Technology may prove to be particularly useful if it can provide the means to improve worker productivity. Improved productivity is the key to an increased standard of living, but it will also be essential economically if labor demands are not met.

Tax Implications

A 1998 study sponsored by the National League of Cities, the National Conference of State Legislatures and the National Governor's Association points to several trends that will threaten state and local public finances into the future.

As the production and consumption of services continues to outpace that of manufactured goods, state and local tax bases will suffer. Many services are tax exempt and thus do not generate public revenue. Additionally, it is the manufacturing sites that pay the higher property taxes. As this industry represents a lesser share of the economy, its property taxes make up a smaller share of public revenue.

Some innovations in technology, such as the internet, do not bode well for public revenues. Sales on the internet have the potential to shift retail sales tax away from local businesses to electronic commerce. Another factor threatening state and local tax bases is the increased mobility enjoyed by firms as a result of the global economy. An increasing number of firms are locating where the tax treatment is most favorable. Such a situation tempts states to compete on this dimension and manipulate tax rates to attract large firms.

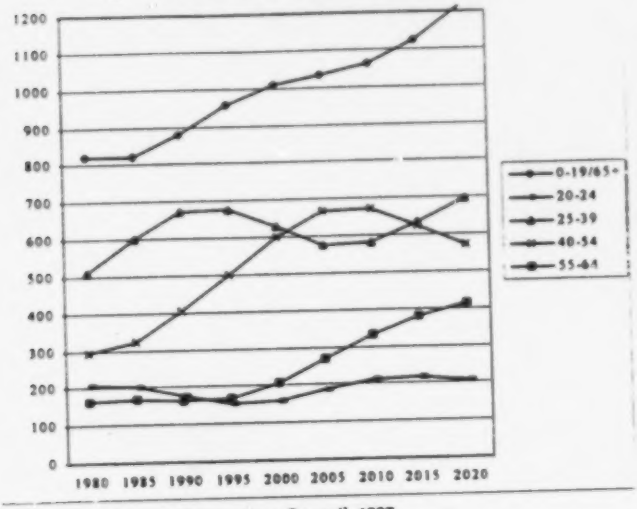
Implications of an Aging Population

Global Economy

As the scale of the economy continues to shift towards global operations the more localized employers in Minnesota's rural communities will be increasingly challenged. Such employers include local markets, banks, and hospitals. Older individuals who age-in-place in these communities may have a difficult time adapting, or accommodating, to these changes.

It will be harder for older individuals who rely on neighbors and service providers in close proximity to meet their physical, mental, and social needs since fewer will be available. Increasingly, these sources of support will relocate to the larger economic centers of the region where they are more likely to find better jobs and other amenities.

Twin Cities Metropolitan Area: Age Forecasts and the Labor Force, 1980-2020



Source: Metropolitan Council, 1997

Changing Composition of Industrial Sectors

The aging workforce will have mixed effects on the state's industrial sectors. The productivity of an aging workforce will need to be carefully considered, especially in those industries with labor-intensive occupations that require significant physical strength and dexterity.

Another challenge faced in industries such as agriculture, mining and forestry is the continued out-migration of younger workers and the in-migration or continued residence of older adults uninterested in or unable to perform the work.

In contrast, the retail and service sectors will benefit from their flexibility to accommodate to the changing employment patterns of older workers that will constitute such a large proportion of the potential labor force.

Labor Shortages

The statewide labor force shortages will be exacerbated by an aging population if employers continue to face disincentives in hiring and retaining older workers. An example of a disincentive faced by employers is workers' compensation costs. The older a worker, the higher the costs associated with recovery from an injury or illness.

In 1993, workers ages 50 to 79 received compensation for almost twice as many weeks on average as workers ages 15 to 49. This translates into greater costs to employers in retaining older workers. However, signs of decreasing disability rates among current older adults point to the possibility that the costs associated with injury and illness within this age group will decrease in the future.

Research shows that attitudes *are* changing towards older workers. A 1998 survey of human resources managers found that 89 percent disagreed with the statement that "older workers have higher rates of absenteeism." Almost 70 percent disagreed with the statement that "older workers are more costly to train than younger workers." Finally, close to 57 percent of these managers disagreed with the statement that "older workers tend to take longer to train than younger workers."

In the future, older adults will more likely continue working into their later years or return to work after they "retire." Some individuals will need to work into their later years out of economic necessity. This is partly a result of the increased discrepancy between the "boomer haves" and the "boomer have-nots." According to the U.S. Department of Labor, younger boomers (currently 32 to 40 years old) have not done as well as the older boomers (currently 41 to 50 years old). The younger boomers have experienced significant declines in their real income levels. Close to 15 percent of all baby boomers lack a high school diploma, many of whom are younger boomers.

There will also be a significant number of baby boomers who choose to continue their careers or switch careers in their later years out of personal preference. The challenge to businesses will be to attract, retain, and retrain these workers in the face of continued labor shortages. Current incentives for individuals to retire early will need to be eliminated in order to retain these individuals.

Most of the growth in job openings in the future will not occur through employment growth but through replacement openings. In other words, most job openings in the future will occur as a result of baby boomers retiring or otherwise quitting their jobs. The challenge to employers will be to fill these openings with qualified individuals as the number of total individuals available will fall far short of the projected need. While the demographic factors are clear, the one unknown variable in this picture is immigration. If immigration increases, it could lessen the effects of this labor shortage.

Another age-related factor that influences the level of available labor is the increasing prevalence of caregivers in the workforce. As the number of elderly increase into the year 2030 the need for informal caregivers will also increase. In a national public opinion poll conducted in 1998 for the National Partnership for Women & Families, over half of all Americans predicted that they will be responsible for the care of an elderly relative in the next ten years.

The most typical employed caregiver, according to the U.S. Department of Labor, is a woman in her mid-forties who is employed and provides, on average, 18 hours of care per week for her mother who either lives with her or lives nearby. MetLife estimates that the total cost to employers in lost productivity associated with caregiving is $11.4 billion a year nationally. This lost productivity results from employees taking time off to provide direct assistance or trying to manage care and maintain contact while at work.

Education and Training

In the past, educational institutions and employers have focused on educating new entrants to the workforce. In the future, the focus will need to shift to the retraining needs of individuals already in the workforce. The need for continuous training in the future economy will also be driven by the rapid pace of technological change. The provision of lifelong training in this area will be a challenge in light of the myths and realities of training and retraining older workers.

One myth is that it is difficult or expensive to retrain older workers. This myth has increasingly been proven wrong, as older workers have learned new skills, started new careers after experiencing lay-offs, etc. The question is what role public education (and private business) will have in developing and subsidizing the retraining of older workers in the future.

Technology

As technological innovation continues, workers will be replaced by or be more productive through the application of technology. In the future, technology will likely need to substitute for workers due to the labor shortages.

The need for substitution will be greatest in industries devoted to caring for older people, such as long term care, as well as in the industries characterized by physical labor. These industries are currently experiencing difficulties in recruiting workers interested and able to do the work that is often both physically and mentally demanding. However, the feasibility of significant substitution will be based on the costs of doing so.

In the long term care industry, the feasibility of replacing workers with technology will be based on both affordability and the ability of service recipients and/or workers to use and manage the technology. Technology will never fully replace the need for "high touch" in the delivery of health and long term care services.

Tax Implications

As Minnesota's population ages, an increasing proportion of the workforce will begin to make plans for retirement. As we approach 2030, an increasing proportion of the current workforce will retire or move into more part-time employment. This will affect Minnesota's tax base in several ways.

As workers get older and think more seriously about retirement they tend to take increased advantage of various, "tax-preferred" financial retirement plans. Under our current laws, workers have two basic choices: they can divert their income to traditional "tax-deferred" retirement accounts or they can invest earnings in products such as Roth IRAs (income is taxed at the point of investment, earnings from the investment are tax exempt).

In addition, once a worker retires, the primary sources of their income are Social Security, pensions, and investments (interests, dividends, capital gains). Income from Social Security and capital gains receives preferential tax treatment, i.e., such income is generally excluded from calculations of taxable income that are used to determine eligibility for different forms of tax relief.

Income from Social Security and pensions tends to grow more slowly than wage and salary income. Assuming that workers will choose a plan that maximizes their tax advantage and that current preferential tax treatment remains in place, a greater share of personal income will be tax exempt and subject to lower tax rates and to slower rates of growth as the population ages.

An aging population may also have an impact on other major sources of tax revenue. For example, elderly people tend to spend less of their disposable income on durable goods which are subject to sales tax. Or, they may travel or relocate to another state for part of the year or move permanently. As a result, their consumption of taxable goods and services may occur outside of Minnesota.

Elderly homeowners may also experience relatively high property tax burdens as their incomes remain relatively fixed and their homes increase in value. This will force them to sell or result in demand for increased property tax relief expenditures targeted to older homeowners.

Another tax implication is the continued payment of income tax (as well as federal FICA and Medicare payroll tax) by older workers who continue to work past "retirement" age. This will bring more income taxes into the state, but it is not clear if this increase will offset reductions due to other changes in the income sources of older people in Minnesota.

Conclusion

Clearly, the aging of the population will have a significant impact on Minnesota's workforce and economy. Actual changes that will occur are not as clear. However, trends already underway in the state's economy will suggest how these changes may play out. The baby boom generation – always unpredictable – will influence the direction of these trends.

Now is the time to increase our understanding of these trends and their intersection with the demographic realities. The state must begin to prepare its workforce and economy for 2030.

Recommended policy directions and suggestions offered by Minnesotans on how to prepare for the future are included in the Project 2030 Final Report

References

Metropolitan Council forecasts. March 1998. "Maintaining our Competitive Edge for the 21st Century." St. Paul, MN: same.

Minnesota Department of Economic Security, Research and Statistics Office. November 1997. "Minnesota Employment Outlook to 2005." St. Paul, MN: same.

Minnesota Department of Labor and Industry, Research and Statistics Unit. September 1998. "Minnesota Workers' Compensation: Duration and Estimated Average Cost of Temporary Disability by Age for 1993 Injuries with Temporary Total Disability." St. Paul, MN: same.

Poulos, S. & D. S. Nightingle. June 1997. "The Aging Baby Boom: Implications for Employment and Training Programs." The Urban Institute: Washington, DC.

Snell, R. K. "Future Shock for Tax Systems." *State Legislatures*, April 1998.

Society for Human Resources Management. 1998. "Older Workers Survey."

U.S. Department of Labor, Women's Bureau. May 1998. "Work and Elder Care: Facts for Caregivers and Their Employers." Washington, DC.